

MEETING SUMMARY NOTES

Finance Work Group

February 27, 2003

3:30 p.m., Mayor's Conference Room, County-City Bldg.

MEMBERS: Present - Brad Korell, Ron Ecklund, Dan Marvin, Bob Hampton, Connie Jensen, Polly McMullen, Kent Seacrest, Tom Schleich, Roger Severin, Tim Thietje, Terry Werner, Otis Young, Larry Zink, Allan Abbott (nonvoting)
Absent - Lowell Berg, Keith Brown, Jim Budde, Mark Hesser, Richard Meginnis

OTHERS: Kent Morgan, Steve Hubka, Jon Carlson, Hallie Salem, Margaret Blatchford, Margaret Remmenga, Lauren Wismer, Joel Pedersen, Don Herz, Michele Abendroth

AGENDA ITEMS DISCUSSION:

1. Welcome - Brad Korell, Work Group Chair

Mr. Korell called the meeting to order at 3:30 p.m. and welcomed those present.

2. Meeting Summary Notes - February 12, 2003

Mr. Korell asked if there were any changes to the "Meeting Summary Notes" from the February 12, 2003 meeting. None were suggested.

3. Public Comment Period

Mr. Korell asked if there were members of the public present who would like to address the Work Group at this time. There were none.

4. Set Future Work Group Meeting Dates

Mr. Korell stated that the Mayor has asked if the full committee could deliver a report to him by May 8th and asked if we could add additional meetings in order to accomplish this goal. Additional meeting dates were set for March 19th, April 2nd, April 16th, April 23rd, and May 7th; all meetings will begin at 3:30 p.m.

5. Assumed Streets and Highways Financing Target

Mr. Korell stated that at the last meeting, the work group looked at the number from the Cost Savings and Efficiency Work Group, which was approximately a \$200 million gap. The Group determined to set \$225 million as a financing target.

Mr. Korell pointed the group's attention to the handout before them entitled, *Street Financing Funding Sources/Options*, which is a master list of ideas to work from. He asked if everyone agreed to that list; there were no objections.

Mr. Korell then asked the group to focus the handout entitled, *Street Financing Options Worksheet*. He explained the format of the handout, which is divided into several parts, as follows: a basic description of the funding source/financing option, the amount of annual funding/revenue which could be obtained, legal considerations of the option, who would pay or provide the revenue, the feasibility of the option, and the pros/cons of the option.

Mr. Korell asked the invited presenters to introduce themselves, as follows: Lauren Wismer, bond council for the city of Lincoln; Joel Pedersen, Assistant City Attorney; Margaret Blatchford, Assistant City Attorney; Steve Hubka, City Budget Officer.

Mr. Korell stated that the first item on the agenda under funding source/financing options was **general obligation bonds**. Mr. Korell noted that these bonds are already authorized by city law. Mr. Wismer stated that there are two options available with bonding. First is general obligation bonds, which are authorized by the city charter, and are broad in terms of the kinds of things that general obligation bonds can be issued for. He noted that they can be issued upon a favorable vote by the electors of the city. Mr. Wismer stated that they have very good ratings. He added that one of the things to keep in mind is that in addition to being payable from property tax revenues, the city does have the option of using other legally available funds to pay debt service on the bonds. Mr. Marvin asked if there is an obligation to use the funds within a certain period of time. Mr. Wismer replied that the charter has a 6 year limitation.

Mr. Seacrest stated that the idea of the general obligation bond is pledging the full faith and credit in taxing power, and questioned what the taxing powers are. Mr. Wismer replied that the City has traditionally used its property tax revenues to pay the debt service for the bond, but the City has the option of using other sources. Mr. Seacrest then asked if it is correct that the lid laws on property tax do not apply to general obligation bonds. Mr. Wismer replied that this is correct. Mr. Seacrest then asked if we would have the ability to issue occupation taxes or other taxes under this to pay these bonds. Mr. Wismer replied that depending upon the authorization and the ordinances of the cities, they could be used to pay GO bonds. To the extent that they would not be sufficient to pay the bonds, then the city has recourse to general property taxes. Mr. Seacrest asked about city income tax. Mr. Wismer stated that would have to be authorized by the legislature.

Mr. Hubka stated that we taken in about \$35 million of property tax. If we increase tax by 1%,

that would generate \$350,000 in revenue. For a 20 year bond, we estimate it could bond about \$4,250,000, and the annual increase on a \$110,000 would be \$3.46. Mr. Korell asked what percentage of the tax is for the city. Mr. Hubka stated that it is approximately 15%.

Mr. Seacrest noted that a report has indicated that Lincoln's property taxes are considerably lower than our peer cities. Mr. Korell asked Mr. Morgan to provide copies of that report for the group.

The next funding source/financing option discussed was **highway allocation bonds**. Mr. Wismer stated that highway allocation bonds are bonds that are authorized by a particular provision of the Nebraska statutes, which enable any county or city to issue bonds for the construction of streets and off-street parking, and to pledge those funds to the repayment of those bonds. The statute says that they can be authorized by ordinance of the Mayor and City Council, and it does not require a vote of the electorate. It also allows the political subdivision, to the extent that the highway allocation funds are insufficient, to levy a tax on all the taxable property for the payment of the principle and interest on the bond, so in essence they are a general obligation of the political subdivision.. The city has the option of using other legally available funds in addition to highway allocation proceeds and property taxes to provide for the payment of the principle and interest on this type of obligation. Mr. Wismer stated that this has been used very sparingly in the State of Nebraska.

Mr. Zink asked if his understanding was correct in that other than the ability to raise property taxes to pay for this, there is no new money here. Mr. Wismer confirmed that is correct.

Mr. Pedersen stated that there are two sources of authority for the **city wheel tax**, one is in state statute and the other is in our charter. The City's wheel revenues are divided into three funds, as follows: snow removal (13%), street construction (40%), and residual (47%), which can be used for construction and/or maintenance. Mr. Pederson stated that you can bond this money, but you may be limited as to what you can do with the proceeds.

Mr. Korell asked how stable these funds are. Mr. Abbott stated he felt they were a consistent and relatively predictable funding source. Mr. Abbott then distributed a handout entitled *Street Funds Available for Debt Service/Construction on an Annual Basis*. He stated that the City share of the federal fuel tax is \$4 million per year. The City share of the state fuel tax is \$15 million per year. The City wheel tax is \$8 million per year and \$5.5 million per year from 'other'. The non-bondable annual expenses are as follows: street operations and maintenance, \$5 million per year; snow removal, \$2 million per year; residential and arterial rehabilitation, \$6 million per year; 'other', \$2 million per year; engineering and advanced right-of-way, \$3 million per year. The bottom line is that there is \$14.5 million in funds available today for street construction and/or debt service for street construction.

Mr. Wismer stated that **sales tax** is a matter of State authorization and could be used to retire the debt service on bonds. Lincoln is at the State authorized maximum for city sales tax. He added that the City could choose to reallocate some of the sales tax receipts. He also stated that there is

no authorization to issue bonds secured by sales tax revenues and would require a state legislative action to go above 1½ % and to bond them. Mr. Wismer stated that he did not believe that the State would allow any latitude to go beyond this maximum.

Mr. Ecklund stated that the advantage of increasing sales tax is that you import sales tax from outside the City of Lincoln, and the disadvantage is that it is a disproportionate tax.

Regarding new or additional **sales tax on all auto sales**, it was noted that the City of Lincoln currently collects a 1.5 percent tax on the sale of vehicles, which is the maximum currently allowed under State law. Mr. Wismer added that State (Unicameral) authorization would be required to increase the sales tax by 1%.

Discussion then turned to a possible **City income tax**. This option would create a city income tax with the funds dedicated to street improvements. Mr. Wismer stated that there is no authorization for City income taxes in the State of Nebraska and would require the approval of the state legislature and possibly of the electorate.

Mr. Ecklund asked how the \$1.5 million revenue was derived. Mr. Hubka stated that the Department of Revenue told him how much state income tax was received from School District #1. Mr. Ecklund stated that normally it is a percent of the gross wage paid. Mr. Hubka replied that this would be 1% of the state tax. Mr. Ecklund noted that is a different computation of the income tax than what he has seen. Mr. Korell asked Mr. Ecklund if he would like further research. Mr. Hubka stated that he would look into getting more information.

Mr. Zink stated that realistically the city income tax is not a viable option. Mr. Ecklund stated that this is a tax he does not like, as it is non-deductible on income taxes.

In response to a question regarding the City's present **wheel tax**, Mr. Hubka stated that about \$8 million is getting split up between snow removal, street construction, and street maintenance. He stated that it is not a popular tax, and they receive a lot of complaints about it. Mr. Hubka also noted that there is 'leakage', as there are people who do not license their vehicles or license them elsewhere. It is more feasible than the other options, however.

Ms. Blatchford stated that the city currently does have authority to levy an **occupation tax** on the retail **sale of motor vehicle fuel**. She stated that one advantage of this option is that it only requires city council and mayoral approval. The disadvantage is that it is difficult to gauge how much money you can raise from this source, as the tax is on retailers, and currently the Department of Revenue only collects tax on the front end from the wholesalers and distributors. Therefore, they do not have information on gross receipts received from gallons sold by retailers.

Mr. Zink stated that this really is an increase in sales tax because the retailer will pass this on to the consumer. This would also require a new collection system that is currently not in place. Mr. Hampton stated that he believes that this is one of the more viable options. Mr. Korell stated

that the revenue is substantial. Mr. Abbott noted that there is an error in the computations of the revenue; the correct estimated annual revenue on a 1 cent assumed tax per gallon is \$1.5 million, and the correct estimated annual revenue on a 5 cent assumed tax per gallon is \$7.5 million.

Next, Mr. Korell questioned the group on how they wanted to proceed. He stated that once we decide what we want to advance, the LES bond consultants have agreed to review our recommendations and advise the committee on finance possibilities.

Mr. Marvin stated that he wanted to look at raising the wheel taxes gradually over the next 12 years and implementing an occupation tax on fuel.

Mr. Thietje asked if there are monies that have been allocated to other uses and if they should more appropriately be used here. Mr. Korell stated that at the previous meeting, we discussed that, and the problem is that the immediate implication is that property taxes go up or we have to eliminate projects and services. He added that he believes a reallocation does not solve the problem.

Mr. Zink stated that he previously suggested continuing to raise the impact fees, and he would like an analysis of that. He specifically suggested raising it \$400 each year. He also suggested ranking these recommendations in terms of feasibility.

Mr. Ecklund stated that in regard to the income tax, he suggested finding a way to tax more than just the people in the City of Lincoln. He also stated that you can leverage yourself so much if you structure the tax to be deductible from the state and federal taxes.

Mr. Seacrest stated that the ability to reallocate existing tax dollars should remain an option for the Group to consider and added that it is the way you sell taxes that is important. The more you get the correlation between the tax and what it is used for is the way you get a more efficient buy-in. He noted that his goal is not to take it from other sources. Mr. Seacrest then stated that historically public policy on taxes has developed through equity, fairness and efficiency. Mr. Korell asked Mr. Seacrest to prepare a proposal for the group to review at the next meeting.

Mr. Ecklund stated that if we keep taxing the citizens of Lincoln through impact fees, occupation fees, etc. you are going to encourage a flight to the County. Therefore, you will have the exact opposite of what you want, as more people will live on acreages or in surrounding communities, thereby avoiding these taxes, and yet they will still drive to Lincoln and need our streets.

The discussion then continued with the list of funding sources/financing options. Mr. Wismer stated that **special funding districts** are primarily districts that are created for special improvements. To some extent, the City is already authorized for the creation of street districts to improve streets. Most of the time, it is with the idea that there are special assessments levied on the properties that are benefitting from the improvement.

Ms. Jensen asked if we are currently authorized to do this. Mr. Wismer replied that we cannot create such districts outside the city limits.

Mr. Werner asked how these are different from impact fees. Mr. Hampton stated that it is just another financing tool. Mr. Seacrest stated that special improvement districts have to prove that there is a direct benefit reaped by the property owners. Mr. Werner asked if this option addresses what we are trying to do. Mr. Wisner stated that he did not feel it did. Mr. Seacrest stated that he disagreed as this technique has been used successfully at 27th and Pine Lake Road.

Mr. Werner suggested that another option would be an occupation tax on developers prior to platting that could be specified to go to roads.

Mr. Severin suggested having the former Omaha city attorney, Ken Bunger, attend the next meeting to discuss Special Improvement Districts. Mr. Severin stated that he would ask him to attend the next meeting. Mr. Hampton will also contact an individual to see if he would be willing to attend the next meeting to discuss SID's as well.

The next meeting will be March 12th beginning at 3:30 p.m.

Mr. Korell adjourned the meeting at 5:30 p.m.

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